



Why Norway's Government Pension Fund Global Should Invest in Unlisted Infrastructure

A Trillion-Dollar Market Offers Maturity, Manageable Risk, and Attractive Returns

The Institute for Energy Economics and Financial Analysis recommends that the Norwegian Government Pension Fund Global (GPF) invest in the trillion-dollar unlisted infrastructure market.

Unlisted infrastructure funds are built to achieve industry-wide long-term returns of 10 percent or more. One such fund operated by Brookfield Asset Management, for example, has a 17-year history with an annual rate of return of 16%.ⁱ Unlisted funds are producing 10% returns on average.ⁱⁱ

Unlisted infrastructure investments carry some risk. Among them, as noted by Ministry of Finance, are local political controversy and complex and varied regulatory systems.

Government agencies, insurance companies, private-sector pension funds, public-sector pension funds, and sovereign wealth funds around the world have shown that these risks can be managed, however.ⁱⁱⁱ

Globally, 62 percent of sovereign wealth funds hold infrastructure investments and an additional 7 percent are considering infrastructure investments.^{iv}

Renewable energy deals are driving growth in the unlisted infrastructure market, accounting for 59 percent of the US\$104 billion in unlisted infrastructure deals in the second quarter of 2017.^v

So far this year, most unlisted infrastructure deal activity has been in Europe and North America.^{vi}

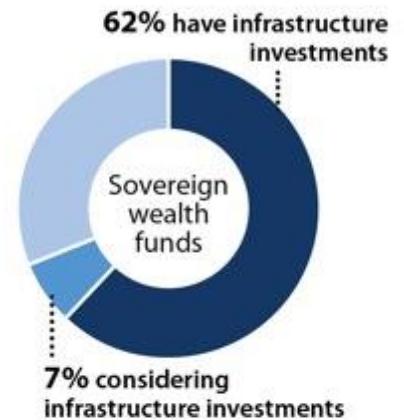
Other Institutional Investors Are Taking Action Now

Several investment houses are offering pure-play, stand-alone renewable investment vehicles in an approach that eliminates many of the reasons cited by the Ministry of Finance for avoiding the sector. This bucks the trend among institutional investors.

Since January 2017, two major investment houses, BlackRock and JPMorgan Chase, have announced the formation of renewable funds. BlackRock recently brought its newest such fund to close with US\$1.48 billion, bringing its

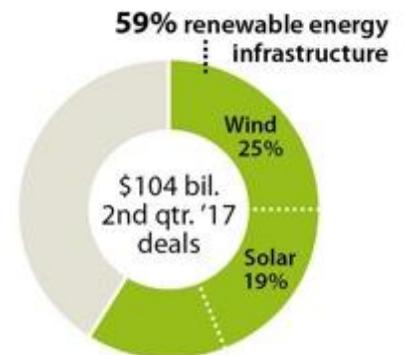
Many Sovereign Funds Already Invest in Infrastructure

In 2016, a majority of sovereign wealth funds held infrastructure investments, and more were considering doing so.



Renewables Are Driving the Infrastructure Market

Of the \$104 billion in infrastructure deals completed in the second quarter of 2017, the majority were for renewable energy projects.



Source: Preqin Infrastructure Online

total investment across the renewable asset class globally to US\$4.8 billion. Today, 22 European institutional funds are invested in BlackRock renewable initiatives.^{vii}

Investing in Unlisted Infrastructure Would Be to the Long-Term Benefit of the Fund

IEEFA recommends that, over time, the Fund invest up to 5% of its principal in unlisted infrastructure. The Fund could set a lower initial target now by using a portion of the equity rebalancing reallocation recommended by the Ministry of Finance. (The Ministry has opted to increase the proportion of Fund assets invested in the stock market, to 70% of the Fund's 7.5 trillion NOK/US\$976 billion in holdings.)

Either way, investing now would be to the long-term benefit of the Fund, and could help boost the Norwegian economy, supporting public welfare and pensions.

Structural Declines in the Oil Industry Leave GPFG Facing Special and Historic Challenges

The Fund's lower recent investment returns—and the structural decline of the oil industry—leave the Fund facing a series of time-sensitive decisions on how to manage Norway's structural budget deficit.^{viii}

Last year (2016) was the first time in almost 20 years that revenues from oil sales and from the Fund's investment proceeds were not big enough to close an annual budget gap.^{ix}

The Ministry's recent decision to increase investment in the stock market, while having the potential to bring higher returns, carries the risk of exposing the fund more heavily to fluctuations in the market, particularly in bad years. This could in turn result in the need to withdraw more money from the Fund's principal to support Norway's budget, thus reducing the Fund's principal balance.

Norway is now selling oil at lower prices than before, a phenomenon that will continue. Investment returns will be lower^x than in the past (Norway's Fund has returned 5.7% annually over the last twenty years); and overall growth of the Fund will be slow.

The author, Tom Sanzillo, Director of Finance for IEEFA, has 17 years of experience with the State of New York, where he had oversight of over US\$350 billion in bond and pension funds. He is the primary author of three reports on the Norwegian Government Pension Fund Global: Case for Divesting Coal from the Norwegian Pension Fund Global, May, 2015; Making the Case for Norwegian Sovereign Wealth Fund Investment in Renewable Energy Infrastructure, February 2017; and How Renewable Energy Holdings Can Contribute to the Growth of Norway's Pension Fund in a Time of Oil Industry Uncertainty, February 2017.

ⁱ <https://bep.brookfield.com/~media/Files/B/Brookfield-BEP-IR/events-and-presentations/presentation-29-09-2016.pdf>, p. 13

ⁱⁱ Preqin, *2017 Preqin Global Infrastructure Report*, see also: <http://ieefa.org/wp-content/uploads/2017/08/How-Renewable-Energy-Holdings-Can-Contribute-to-the-Growth-of-Norways-Pension-Fund-in-a-Time-of-Oil-Industry-Uncertainty-August-2017.pdf>, p. 10

ⁱⁱⁱ <http://ieefa.org/wp-content/uploads/2017/08/How-Renewable-Energy-Holdings-Can-Contribute-to-the-Growth-of-Norways-Pension-Fund-in-a-Time-of-Oil-Industry-Uncertainty-August-2017.pdf>

^{iv} <http://ieefa.org/ieefa-norway-case-sovereign-wealth-fund-invest-global-renewable-energy-infrastructure/>

^v <https://www.preqin.com/docs/quarterly/inf/Preqin-Quarterly-Infrastructure-Update-Q2-2017.pdf>

^{vi} <https://www.preqin.com/docs/quarterly/inf/Preqin-Quarterly-Infrastructure-Update-Q2-2017.pdf>

^{vii} <https://ijglobal.com/articles/107325/blackrock-global-renewable-power-ii-fund-the-largest-of-its-kind>

^{viii} <https://www.regjeringen.no/contentassets/114c28f5daba461e95ed0f2ec42ebb47/en-gb/pdfs/stm201620170026000engpdfs.pdf>

^{ix} *Ibid*, p. 57

^x *Ibid*, p. 58